Government of Saskatchewan

2006 - 2007 Annual Report

Saskatchewan Pension Annuity Fund

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Letter of Transmittal

His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Sir:

I have the honour to transmit herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2007.

I have the honour to be, Sir,

Your obedient servant,

Pat Atkinson

Pat Atkinson
Minister in Charge
Saskatchewan Pension Annuity Fund

Letter of Transmittal

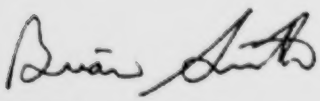
The Honourable Pat Atkinson
Minister in Charge
Saskatchewan Pension Annuity Fund
Regina, Saskatchewan

Madam:

Letter of Transmittal

On behalf of the Saskatchewan Pension Annuity Fund Board, I have the honour to present herewith the Annual Report of the Saskatchewan Pension Annuity Fund for the fiscal year ending March 31, 2007.

Respectfully submitted,



Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Saskatchewan Pension Annuity Fund

Introduction

The Saskatchewan Pension Annuity Fund (SPAF) was created for members of the Public Employees Pension Plan who want to purchase an annuity as their source of retirement income. Members of the Public Employees Pension Plan are able to purchase annuities from the SPAF upon retirement. The Saskatchewan Pension Annuity Fund Act governs SPAF.

Effective April 1, 2005, The Saskatchewan Pension Annuity Fund Board was established to administer the Fund.

Saskatchewan Pension Annuity Fund Board

Chairperson
Brian Smith

Members
Clare Isman
Public Service Commission

Dennis Polowyk
Saskatchewan Finance

Investment of Funds

The Pension Annuity Fund Board is responsible for holding in trust and investing the monies in the Fund. The Pension Annuity Fund Board has retained Greystone Capital Management Inc. as its investment manager.

Greystone Capital Management Inc. continues to manage an immunized bond portfolio.

The investment manager makes the day-to-day decision of whether to buy or sell specific investments in order to achieve the long term investment performance objectives set by the Board. It is these long term investment performance objectives that the Pension Annuity Fund Board uses to assess the performance of the investment managers.

The investment objectives are:

- to structure the investment portfolio so that the Annuity Fund's net assets are immune to changes in the level of interest rates;
- to provide sufficient liquidity to ensure payment to retired members when due; and
- to ensure long-run solvency.

To achieve the above objectives, the assets of the Fund should be invested so that:

- the duration of the investment portfolio is matched with the duration of the liabilities on an ongoing basis. The matching should fall within a band of -.5 to +.5 years of the duration target;
- the portfolio includes sufficient short term investments to meet liquidity needs; and
- the present value of the asset cash flow stream exceeds the present value of expected liability payments.

The Pension Annuity Fund Board has retained RBC Dexia Investor Services as the custodian of the Fund. The custodian is responsible for custody of all financial assets of the Fund (in the name of the Saskatchewan Pension Annuity Fund). The custodian settles all investment transactions. The custodian also ensures that investment income (ie. dividends, interest) is collected and provides financial statements for all investment transactions.

The Pension Annuity Fund Board engages the services of an asset consultant to provide advice on the overall management of the Fund's investments and on the measurement of the Fund's performance. James P. Marshall, Inc. provides this service to the Pension Board.

Annuities

The Saskatchewan Pension Annuity Fund paid a total of $13,587,000 in annuities to 2,064 members, or spouses of members, from the Public Employees Pension Plan during the 2006/2007 fiscal year.

Administration of the Fund

The Pension Annuity Fund Board retains the Public Employees Benefits Agency, Saskatchewan Finance to provide the day-to-day administration of the Fund.

The annual operating expenditures associated with the Fund's administration are paid to the Public Employees Benefits Agency Revolving Fund and are charged to the Saskatchewan Pension Annuity Fund.

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

The Saskatchewan Pension Annuity Fund Board consists of three appointments made by the Minister of Finance. The Pension Annuity Fund Board is comprised of a Chairman appointed by the Minister and two other members appointed by the Minister. The Pension Annuity Fund Board is responsible for financial administration, administration of the funds and management of assets.

The financial statements, which follow have been prepared by management in conformity with accounting principles generally accepted in Canada and have been approved by the Pension Annuity Fund Board. Management uses internal controls and exercises its best judgement in order that the financial statements reflect fairly the financial position of the Fund.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events, which require approval by management.

The financial statements have been audited by the Provincial Auditor whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Kathy Deck
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
June 1, 2007

Actuary's Opinion

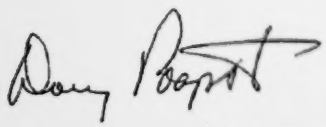
Eckler Ltd. was retained by the Public Employees Benefits Agency (PEBA) to perform an actuarial valuation of the accumulated provision for annuities payable from the Saskatchewan Pension Annuity Fund (Fund) on an accounting basis as at March 31, 2007.

The actuarial valuation of the Fund's accumulated provision for annuities payable was based on:

- Membership and asset data provided by the Public Employees Benefits Agency as at March 31, 2007;
- Assumptions about future demographic events which were developed by management and Eckler Ltd. and are considered as management's best estimate of these events; and
- A discount rate chosen to be consistent with the asset values reported in the Fund's financial statements.

While the actuarial assumptions used to estimate the accumulated provision for annuities payable for the Fund's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Fund's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Fund.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation. In our opinion the methods employed in the valuation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuation has been performed in accordance with accepted actuarial practice.



A. Douglas Poapst, FSA, FCIA
Eckler Ltd.

June 1, 2007

SASKATCHEWAN PENSION ANNUITY FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2007

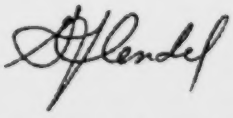
Auditor's Report

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Saskatchewan Pension Annuity Fund as at March 31, 2007 and the statements of operations and net assets, and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Fred Wendel, CMA, CA
Provincial Auditor

Regina, Saskatchewan
June 1, 2007

SASKATCHEWAN PENSION ANNUITY FUND
STATEMENT OF FINANCIAL POSITION

STATEMENT 1

AS AT MARCH 31

	(In Thousands)	
	2007	**2006**
ASSETS		
Investments (Note 3)		
Short-term	$ 88	$ 1,483
Bonds and debentures	151,071	147,678
	151,159	149,161
Receivables		
Accrued investment income	2,236	2,168
Transfer from designated plan	398	311
	2,634	2,479
Due from General Revenue Fund (Note 4)	251	577
Total Assets	$154,044	$152,217
LIABILITIES AND NET ASSETS		
Liabilities		
Administration expenses payable	$ 63	$ 47
Accumulated provision for annuities payable (Note 5)	151,367	150,748
Total Liabilities	151,430	150,795
Net Assets (Statement 2)	2,614	1,422
Total Liabilities and Net Assets	$154,044	$152,217

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND **STATEMENT 2**
STATEMENT OF OPERATIONS AND NET ASSETS

YEAR ENDED MARCH 31

	(In Thousands)	
	2007	**2006**
REVENUES		
Transfers from designated plan	$ 6,545	$15,982
Investment income:		
Interest	7,764	7,643
Net gains on sale of bonds	10	71
Net amortization of bond premiums and discounts	1,377	1,483
Total Revenue	15,696	25,179
EXPENSES		
Change in accumulated provision for annuities payable (Note 5)	619	9,825
Annuities	13,587	13,036
Administration (Note 7)	298	289
Total Expenses	14,504	23,150
Net Income for the year	1,192	2,029
Net (Deficit) Assets, beginning of year	1,422	(607)
Net Assets, end of year (Statement 1)	$ 2,614	$ 1,422

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND **STATEMENT 3**
STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31

	(In Thousands)	
	2007	**2006**
Cash flows from (used in) operating activities:		
Transfers from designated plan	$ 6,457	$ 15,676
Interest income received	7,707	7,622
Annuities paid	(13,587)	(13,036)
Administration expenses paid	(281)	(279)
	296	9,983
Cash flows from (used in) investing activities:		
Purchase of investments	(34,912)	(56,165)
Proceeds from disposal of investments	34,290	46,748
	(622)	(9,417)
Net increase(decrease) in Due from General Revenue Fund	(326)	566
Due from General Revenue Fund, beginning of year	577	11
Due from General Revenue Fund, end of year	$ 251	$ 577

(See accompanying notes to the financial statements)

SASKATCHEWAN PENSION ANNUITY FUND
NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2007

1. Description of Plan

Order in Council 867/04, dated December 21, 2004, assigns responsibility for the Fund with the Saskatchewan Pension Annuity Fund Board (Annuity Fund Board). The day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). The Fund operates pursuant to Section 5 of *The Saskatchewan Pension Annuity Fund Act* (Act).

The purpose of the Fund is to provide annuities to members of designated pension plans. Currently, the only designated pension plan is the Public Employees Pension Plan. Members of a designated plan may, upon retirement, elect to receive an annuity from the Fund, as an alternative to purchasing an annuity from a private company that issues annuities. Those electing to receive an annuity from the Fund transfer their accumulated contributions and investment income from their designated plan to the Fund at the time of retirement.

Subsection 5(7) of the Act requires any amount by which the liabilities of the Annuity Fund exceed the assets of the Fund to be a charge on, and a payable out of, the General Revenue Fund. As the annuities payable are long-term liabilities, and management does not expect to require funding to meet their current obligations, the Fund has not recorded any amount as a receivable from the General Revenue Fund.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Fund follows accounting policies recommended for organizations that issue annuities. The following accounting policies are considered significant:

a) **Investments**

Short-term investments are recorded at cost. Bonds and debentures are recorded at amortized cost. Premiums and discounts on the acquisition of bonds and debentures are amortized to earnings over the term of the security.

b) **Accumulated Provision for Annuities Payable**

The accumulated provision for annuities payable represents the present value of the annuities underwritten and is determined pursuant to an annual actuarial valuation.

Any resulting change in the accumulated provision for annuities payable pursuant to the valuation is recognized in the statement of operations and net assets.

c) **Use of Estimates**

These statements are prepared in conformity with Canadian generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current operations when identified.

3. Investments

The objectives for investment include structuring the investment portfolio to limit the effect on the Fund arising from changes in the level of interest rates, providing sufficient liquidity for payments to annuitants when due, and ensuring long-term solvency.

The Fund holds investments in long-term bonds with durations approximating the estimated life expectancies of annuitants.

The projected cash inflows over the life of the Fund are expected to meet the cash outflows.

a) **Interest Rate Risk**

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. Interest rate risk is managed by investing in fixed income investments that provide cash flows that match payments to annuitants.

The value of the Fund's assets is affected by changes in nominal interest rates.

b) **Credit Risk**

Credit risk arises from the potential for issuers of securities to default on their contractual obligations to the Fund. The Annuity Fund Board limits the credit risk of the Fund by dealing with issuers that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service and/or the Standard and Poor's and/or Moody's Investors Services.

Short-term Investments

Short-term investments are comprised of T-Bills and Notes with effective rates of 4.20% (2006 – 3.80%) and an average remaining term to maturity of 75 days (2006 - 57 days). The Fund's investment policy states that investments must meet a minimum investment standard of "R1" as rated by a recognized credit rating service.

Bonds and Debentures

The Fund's investment policy states that government bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15% of the par value of the bond portfolio may be invested in BBB rated bonds. At March 31, 2007, the Fund held 0.39% (2006 – 0.39%) of its portfolio in BBB bonds.

No more than 10% of the market value of the bond portfolio may be invested in corporate bonds. At March 31, 2007, the Fund held 2.56% (2006 – 2.64%) of the market value of bonds and debentures in corporate bonds. The minimum credit rating for corporate bonds is "A" or equivalent as rated by a recognized credit rating service.

(in thousands of dollars)

	2007						2006		
	Market Value								
Years to Maturity	Federal	Provincial	Corporate	Total	Weighted Average Yield to Maturity at Market	Coupon Rate	Total Market Value	Weighted Average Yield to Maturity at Market	Coupon Rate
Under 1	1,417	1,145	-	2,562	4.10	0.00-6.50	3,622	4.75	6.25-7.10
1 - 5	16,877	5,713	573	23,163	4.03	0.00-10.00	20,378	3.46	0.00-10.00
5 – 10	13,291	23,356	2,979	39,626	4.23	0.00-11.25	38,099	5.26	0.00-11.25
Over 10	29,198	74,604	805	104,607	4.48	0.00-10.50	103,494	4.49	0.00-10.50
Market Value	60,783	104,818	4,357	169,958			165,593		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The Fund's investments are comprised of:

(in thousands of dollars)

	2007		2006	
Bonds and Debentures	Cost	Market Value	Cost	Market Value
Province of Saskatchewan	$ 2,018	$ 1,845	$ 3,868	$ 3,737
Other Provincial	109,469	102,973	108,532	99,246
Corporate	3,729	4,357	3,729	4,370
Canada	52,701	60,783	51,370	58,240
Total bonds and debentures at par value	167,917	169,958	167,499	165,593
Net unamortized discounts	(16,846)	-	(19,821)	-
Total bonds and debentures at amortized cost	151,071	169,958	147,678	165,593
Short-term investments	88	88	1,483	1,483
Total investments	$151,159	$170,046	$149,161	$167,076

Investments are recorded at cost because investments are matched with liabilities to minimize interest rate and reinvestment risk. Fair value approximates the market value of investments.

4. Due from General Revenue Fund

The Fund's bank accounts are included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis to the Fund's bank accounts using the Government's thirty day borrowing rate and the Fund's bank account balance. The Government's average thirty day borrowing rate for 2007 is 4.15% (2006 - 2.82%).

5. Accumulated Provision for Annuities Payable

The accumulated provision for annuities payable is the actuarial present value of the expected annuity benefit obligations to annuitants. The discount rate is based on the average yield to maturity on the fund assets, calculated at amortized cost. The average yield to maturity on the Fund's assets at market value, however, is 4.71% (2006 – 4.80%).

The provision for annuities payable is based on a number of assumptions about future events including discount rate, inflation and mortality. For mortality, the 2006 and 2007 valuations used 95% of the Uninsured Pensioner 1994 Mortality Table. Prior to 2006, valuations used 80% of the 1983 Group Annuity Mortality Table. The change in mortality tables provides a better approximation of mortality in determining the accumulated provision for annuities payable.

The annual change in the annuities payable is reflected in the statement of operations and net assets. The principal components of change during the year were as follows:

	(in thousands of dollars)	
	2007	**2006**
Accumulated provision for annuities payable, beginning of year	$150,748	$140,923
Interest on annuities payable	8,775	8,586
New annuities purchased in the year	5,445	13,801
Change in mortality tables	-	(865)
Annuities paid	(13,587)	(13,036)
Change in estimated future administration costs	157	203
Data correction and experience (gain) loss	(295)	576
Change in assumed discount rate	124	560
Accumulated provision for annuities payable, end of year	$151,367	$150,748

An actuarial valuation of the Fund was performed as at March 31, 2007 by Eckler Partners Ltd. In determining the annuities payable, the actuaries used a discount rate of 6.10% (2006 – 6.11%). The accumulated provision for annuities would be approximately $171 million (2006 - $169 million) if management used a discount rate of 4.71% (2006 – 4.80%) that is equal to the average yield to maturity on the Fund's assets at market value.

Based on experience, an explicit allowance for expenses of 2.20% (2006 - 2.10%) of annuities is included in the accumulated provision for annuities payable. This allowance reflects the cost to administer current annuities that would continue into the future.

Actual results may vary significantly from the assumptions used. It is reasonably possible, based on existing assumptions, that changes in future conditions in the near term could require a material change in the annuities payable. A 1% increase in the discount rate would decrease the liability $11.8 million (2006 - $11.9 million) and a 1% decrease in the discount rate would increase the liability $13.7 million (2006 - $13.9 million).

The expected cash inflows from investment income and disposal of investments at maturity and the expected cash outflows to pay the annuities and administration expenses are calculated using the above assumptions. The expected net cash flows are based on actual dollar forecasts without any provision for inflation and they do not allow for future annuitants. The estimated net cash inflows for the next 5 years are $0.3 million, for the next 10 years $4.3 million and for the next 30 years $5.5 million.

6. Fair Value of Financial Assets and Financial Liabilities

The following method and assumptions were used to estimate the fair value of each class of financial assets and financial liabilities:

Fair values of investments are considered to be market values (Note 3).

For the following financial assets and liabilities the carrying amounts approximate fair value due to the immediate or short-term nature:

a) Accrued investment income
b) Transfer from designated plan
c) Due from General Revenue Fund
d) Administration expenses payable

The accumulated provision for annuities payable is a long-term obligation in nature and there is no ready market for settling this obligation. Therefore, determination of the fair value is not practical.

7. Administration Expenses

(in thousands of dollars)

	2007		2006	
	Budget	Actual	Budget	Actual
Administration costs – PEBA	$198	$161	$125	$154
Custodial fees – RBC Dexia Investment Services Trust	10	8	9	8
Investment management fees - Greystone Capital Management Inc.	132	129	108	127
	$340	$298	$242	$289

8. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Also, the Fund is related to non-Crown enterprises that the Government jointly controls or significantly influences. These financial statements include expenses associated with administering the Fund and are paid to the PEBA Revolving Fund. Related party transactions with the Fund are in the normal course of operations and are recorded at exchange amounts agreed to by the parties to the transactions.

At March 31, 2007, the Fund held Province of Saskatchewan bonds and debentures at cost of $2,018,000 (2006 - $3,868,000). Net unamortized discounts on these bonds and debentures amounted to $356,484 (2006 - $384,297) and the Fund earned investment income of $168,799 (2006 - $217,425) from these bonds and debentures.

At year end, the Fund has an accounts payable to the PEBA Revolving Fund of $733 (2006 - $3,550).

Other transactions with related parties and amounts due to or from them are described separately in the financial statements and notes.